



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

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November 22, 2005

Ms. Kathryn Jett, Director  
Department of Alcohol and Drug Programs  
1700 K Street  
Sacramento, CA 95814

Dear Ms. Jett:

**Final Report—Internal Control Risk Assessment/Limited Scope Review**

Enclosed is the final report on our risk assessment/limited scope review for the Department of Alcohol and Drug Programs (Department). This assessment/review was performed under an interagency agreement between the Department and the Department of Finance, to facilitate compliance with the Financial Integrity and State Manager's Accountability Act of 1983.

The Department's written response is included herein. Implementation of the proposed corrective actions will help strengthen the Department's internal controls and reduce the risks of errors or irregularities.

In accordance with Finance's policy of increased transparency, this report will be placed on the Finance website.

We appreciate the Department's assistance with our assessment. If you have any questions, please contact Frances Parmelee, Manager at (916) 322-2985.

Sincerely,

Original signed by Janet I. Rosman

Janet I. Rosman, Assistant Chief  
Office of State Audits and Evaluations

Enclosure

cc: Mr. Alan Smith, Acting Deputy Director, Division of Administration, Department of Alcohol and Drug Programs  
Ms. Susan Lussier, Manager, Fiscal and Administrative Services Branch, Department of Alcohol and Drug Programs  
Mr. Tony Lee, Manager, Budgets, Department of Alcohol and Drug Programs  
Ms. Loretta Paca, Human Resources Manager, Department of Alcohol and Drug Programs  
Ms. Laurel Harper, Accounting Manager, Department of Alcohol and Drug Programs

# A RISK ASSESSMENT

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## Department of Alcohol and Drug Programs Accounting, Administrative, and Fiscal Information Security Controls

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

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The Department of Finance, Office of State Audits and Evaluations, conducted this risk assessment/limited scope review at the Department of Alcohol and Drug Programs' (Department) request. The objective of this assessment/review was to identify any potential risks in the Department's accounting, administrative, and fiscal information security controls.

The Department provides leadership, policy, coordination, and investments in the planning, development, implementation, and evaluation of a comprehensive statewide system of alcohol and other drug prevention, treatment, and recovery services. As the state's alcohol and drug authority, the Department is responsible for inviting the collaboration of other departments, local public and private agencies, providers, advocacy groups, and individuals in establishing standards for the statewide service delivery system.

This report is intended solely for the information and use of the Department. However, this report is a matter of public record and its distribution is not limited.

### **STAFF:**

Frances Parmelee, CPA  
Manager

Karis Feldkamp, CPA  
Supervisor

Alice Yip  
Derk Symons  
Mark Zetterbaum

## EXECUTIVE SUMMARY

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During our risk assessment/limited scope review of accounting, administrative, and fiscal information security controls, we noted that the Department of Alcohol and Drug Programs (Department) has taken action to reduce risks in several areas. Moreover, we noted strengths in income, expenditure, budget, financial reporting, and information technology controls.

However, we identified the following areas of continuing uncorrected material weaknesses. For these uncorrected material weaknesses, we performed more extensive testing of control activities.

- *Cash Disbursements:* Controls over the cash disbursement process are inadequate to ensure proper control and accountability. Duties are not adequately separated, check stock is not adequately safeguarded, written procedures are incomplete, and invoices are paid without the required documentation.
- *Fixed Assets:* Fixed assets records are incomplete.

In addition, we identified the following risk areas where controls could be improved and relative risk reduced. For these risk areas, our testing was less extensive.

- Remittances to the State Treasury are not timely submitted for accumulations of \$25,000.
- Collection procedures are not applied promptly and systematically for payroll accounts receivables.
- Controls over the preparation and distribution of issued checks are inadequate. Two signatures are lacking for checks over \$15,000, and supporting documentation for disbursement are not properly noted.
- In addition to the material weaknesses stated above, other controls over property accountability are inadequate. These include weaknesses in purchase authorizations, review, and reconciliation.
- Record keeping over personnel and payroll is not adequate. Specifically, leave balance records are not timely updated and Transfer-Out Clearance Checklists are not always completed.
- CALSTARS access is not timely terminated for exiting and transferring employees. Additionally, the Transfer-Out Clearance Checklists do not ensure termination of security access for student assistants, retired annuitants, and contractors.



## MANAGEMENT LETTER

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Ms. Kathryn Jett, Director  
Department of Alcohol and Drug Programs  
1700 K Street  
Sacramento, CA 95814

We have completed our risk assessment/limited scope review of the Department of Alcohol and Drug Programs' (Department) accounting, administrative, and fiscal information security controls in effect as of July 18, 2005. Our scope was to assess relative risks in the above-mentioned controls and did not constitute a comprehensive study and evaluation of the internal controls. We applied procedures to the extent we considered necessary; this included observations, analyses, interviews, and limited transaction tests. When warranted, we expanded testing by adding procedures and increasing the number of items tested. However, we did not assess programmatic controls over the operation and performance of the Department's mandated activities.

In performing our risk assessment/limited scope review, we identified potential internal control risks and strengths in the Department's budget, income, expenditure, fixed assets, financial reporting, and fiscal information security cycles. Our findings are summarized in the *Findings and Recommendations* section of this report.

Department management is responsible for establishing and maintaining adequate internal controls. The objectives of internal controls are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with state control procedures, and recorded properly.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the Department's internal controls. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you.

This report is intended solely for the information and use of Department management. However, this report is a matter of public record and its distribution is not limited.

Original signed by Janet I. Rosman

Janet I. Rosman, CPA  
Assistant Chief, Office of State Audits and Evaluations  
(916) 322-2985

July 18, 2005

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## SCOPE AND METHODOLOGY

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The Department of Finance, Office of State Audits and Evaluations, conducted this risk assessment/limited scope review at the Department's request. We assessed the Department's strengths and weaknesses over accounting, administrative, and fiscal information security controls. Accounting and administrative controls comprise management's plan to ensure the safeguarding of state assets through adequate segregation of duties, restricted access, authorization, record keeping, establishment of policies and procedures, and internal review. Fiscal information security controls are designed to protect information assets, and include electronic data processing security, data integrity, and risk management.

In conducting our risk assessment, we performed the procedures identified below:

- Verified operable internal controls, including, but not limited to, processes and procedures for staff use, methods of assigning authority and responsibility, segregation of duties, and personnel policies and practices.
- Identified the risks of material misstatement in the accounting records due to error or fraud.
- Identified and evaluated internal controls by transaction cycle.
- Determined the auditability of records and accounts, and provided recommendations regarding the improvement of record keeping, where applicable.
- Determined compliance with state information security and risk management policies applicable to fiscal transaction processing, which includes the appointment of an information security officer and authorized access to information assets.
- Identified areas of operations that are subject to risk from inadequate controls or non-compliance with established controls, and recommended corrective action to minimize these risks.
- Followed up on all reported findings identified in our 2001 and 2003 reports, determined if those findings had been corrected, and evaluated the effectiveness of those corrections.

We did not review programmatic controls over the operation and performance of the Department's mandated activities. Program controls include management's plan to ensure the efficient and effective operation of the Department's activities and programs, the achievement of desired results or benefits, and the compliance with applicable laws and regulations.

To complete the above procedures, we: (1) interviewed Department staff and management; (2) reviewed the Department's reconciliations, accounting and administrative policies and procedures, organization charts, and duty statements; (3) observed the safeguarding of cash receipts, blank check stock, and other sensitive items; (4) performed limited testing of monthly reconciliations, cash receipts, disbursement records, claim schedules, and budget records; and (5) in areas where material weaknesses had been identified, performed more extensive testing by adding procedures and increasing the numbers of items tested.

The following section includes our preliminary conclusions on control strengths and risks. The noted risks are intended to identify areas warranting further attention.



## FINDINGS AND RECOMMENDATIONS

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During our risk assessment/limited scope review of the Department's internal accounting, administrative, and fiscal information security controls, we identified a number of corrected prior findings from the 2001 and 2003 reports. We commend the Department's efforts to implement and maintain these controls. Below are the areas for which corrective action has been taken:

- Budgets—All prior findings have been corrected.
- Cash Receipts—Uncleared and unclaimed collections are now handled timely.
- Accounts Receivable—All prior findings appear to be adequately addressed.
- Purchasing/Contracts—Procedures are now documented, encumbrances are recorded timely, and contract monitoring is improved.
- Office Revolving Fund—The petty cash fund is now properly monitored.
- Personnel/Payroll—Separation payments receive an independent review before distribution, and procedures have generally been documented.
- Financial Reporting—SCO/CALSTARS reconciliations are reviewed timely, identified discrepancies are corrected timely, and year-end reports meet filing deadlines.
- Fiscal Information Security—Staff are given CALSTARS access authority commensurate with their duties.

### **Continuing Uncorrected Material Weaknesses**

Our risk assessment/limited scope review identified continuing uncorrected material weaknesses which had been raised in one or both of our prior reports. Of particular concern, we noted material weaknesses in cash disbursements and fixed assets. These weaknesses significantly increase the risk that material errors or irregularities could occur and remain undetected. Because these areas pose a significant risk, we expanded our audit procedures and increased the number of items tested.

### **Cash Disbursements**

Controls over cash disbursements remain inadequate to ensure the proper safeguarding of cash and to prevent and timely detect any errors or irregularities. We identified the following uncorrected weaknesses in the Department's internal controls over cash disbursements, which were also identified in our prior report. These weaknesses could have a material effect on the Department's financial statements.

## **FINDING 1**

### **Inadequate Separation of Duties over Cash Disbursements**

- Condition: Separation of duties over cash disbursements is not sufficient to safeguard state assets. We noted the following incompatible duties:
- A senior accounting officer (supervisor) authorizes disbursements and also compares machine signed checks to supporting documentation.
  - A senior account clerk prepares checks and also distributes checks.
  - An accounting technician deposits remittances and also operates the check signing machine.
  - The secretary to the deputy director has the key to the check signing machine, the signature plate of the deputy director, and access to blank check stock.
- Criteria: State Administrative Manual (SAM) Section 8080 states the following:
- The person who compares machine signed checks to supporting documentation should not authorize disbursements.
  - Checks should not be routed for distribution through the person who prepared the checks.
  - The person who operates the check signing machine should not also deposit remittances.
- SAM Section 8081 states that for check signing machines which require only one key, the person whose signature is used will control the key.
- Recommendations: Ensure that adequate separation of duties are established and maintained over cash disbursements. Ensure that the person whose signature is used for the check signing machine controls the key.

## **FINDING 2**

### **Inadequate Safeguarding of Blank Check Stock**

- Condition: Blank check stock is not sufficiently safeguarded from unauthorized use. We noted the following deficiencies:
- The key to the blank check stock is kept in a safe, and personnel with incompatible duties have access to the blank checks. Specifically, the employee who compares machine signed checks to supporting documentation and the employee who operates the check signing machine inappropriately have access to blank check stock.
  - The check preparer has access to blank check stock and also maintains the log of blank checks.
  - The daily log of checks written does not contain all the required elements (see Risk Area 3). Also, the log of signed checks is not reconciled to the daily log of checks written.

Criteria: SAM Section 8041 states that agencies will keep check stock under strict control at all times.

SAM Section 8080 states that the person who compares machine signed checks to supporting documentation and the person who operates the check signing machine should not have access to blank check stock. In addition, the person assigned to compare signed checks to authorizations and supporting documents will compare daily the meter reading on the machine with the log of checks reviewed and signed by machine.

Recommendation: Ensure that procedures are established and maintained to adequately control blank check stock.

### **FINDING 3                      Inadequate Written Procedures**

Condition: Not all cash disbursement functions have written desk procedures. Specifically, there are no written procedures for verifying checks with backup documentation, for issuing refund checks from the general fund, for maintaining the petty cash fund, or handling undeliverable warrants. Before fieldwork was completed, Department staff produced written procedures for verifying checks with backup documentation and maintaining the petty cash fund, but not for issuing refund checks or handling undeliverable warrants.

Criteria: SAM Section 20050 states that each system an entity maintains to regulate and guide operations should be documented through flowcharts, narratives, desk procedures, and organizational charts.

Recommendation: Develop and maintain written desk procedures for all cash disbursement functions.

### **FINDING 4                      Payment of Purchase Orders Without Required Documentation**

Condition: Purchase orders and related invoices are paid without proper receipt documentation. Specifically, 33 out of a sample of 65 documents tested were either paid prior to the preparation of the stock receipt report, or were paid without stock received reports or other documentation evidencing receipt.

Criteria: SAM Section 8422.20 states that the accounting officer will compare the stock received report to the purchase order and invoice. If these documents are not available for comparison, claims will not be filed for payment.

Recommendation: Establish procedures for monitoring purchase orders, invoices, and stock received reports prior to payments.

## **Fixed Assets**

Controls to ensure proper safeguarding and reporting of fixed assets continue to be inadequate. We identified significant uncorrected weaknesses in the recording of fixed assets that were also identified in our prior report.

### **FINDING 5                      Incomplete State Property and Fixed Assets Records**

**Condition:**                      The Department's Property Register and the physical inventory report do not contain a complete record. These reports lack accounting for furniture purchased within the past few years. While the Department implemented new inventory procedures to record all information and to tag all new assets in March 2005, the process has not been completed.

**Criteria:**                      SAM Section 8650 states that departments will keep track of state property, whether capitalized or not, in an automated property accounting system (if one is used) or on Property Record Cards, STD. 153-A. The information for each item of property constitutes the property register (i.e., an inventory listing of all departmental property), and shall include both capitalized and non-capitalized property.

**Recommendation:**            Ensure that property records are accurate and complete; fully implement the new procedures over fixed assets.

For the following accounting, administrative, and fiscal information security controls, we performed limited testing and identified the following strengths and risks for each cycle.

### **Income Cycle**

Effective internal controls over cash receipts are necessary to ensure that all amounts are properly safeguarded, collected, deposited, and remitted timely to the State Treasury. In addition, effective internal controls over receivables are necessary to ensure that all amounts due are promptly collected and properly recorded. Receivables are amounts due to the Department from fees, licenses, penalties, and payroll overpayments.

#### **Strengths**

- The separation of duties in the revenue cycle is adequate for the safeguarding of state assets.
- Onsite facilities are adequate for safeguarding cash and other valuables, and access to the safe is appropriately restricted.
- Collections are properly controlled, and accountability is established at the earliest possible time after receipt.
- All balances for uncleared collections are cleared promptly. This corrects a finding from our 2003 report.
- Program and contingent receivables are properly established for the amounts due, and amounts are billed timely for services provided.
- Collections for program accounts receivable are adequate.
- All prior findings related to accounts receivable have been corrected.

#### **Risk Area 1—Frequency of Remittances to State Treasury Inadequate**

Remittances to the State Treasury are not promptly submitted for accumulations of \$25,000 as required by law, regulations, or circumstances. Remittances are made to the State Treasury twice per month or more often if workload permits. Late remittances contribute to inaccurate fund balances, and may also impact any interest earnings accruing thereon.

During the period January through March 2005, there were 22 deposits greater than \$25,000. Of those 22 deposits, 7 remittance advices totaling \$5,108,347 were not submitted timely. SAM Section 8091 states that accumulated deposits of \$25,000 will be remitted as soon as possible, but no later than the first day of the week following the accumulations.

We recommend that the Department implement procedures to ensure prompt remittances in accordance with SAM Section 8091.

## **Risk Area 2—Untimely Collections on Employee Accounts Receivables**

Collection procedures are not applied promptly and systematically for payroll accounts receivables. SAM Section 8776.6 states that each department will develop collection procedures that will assure prompt follow-up on receivables. We noted the following during our review of employee accounts receivables:

- Personnel/Payroll has not taken action on 13 employee accounts receivable items listed in the April 30, 2005 D03 Accounts Receivable Aging Report-General Ledger 1311. These receivable items (totaling \$2,396) are between 61 to 365 days outstanding.
- Personnel/Payroll has not taken action on 22 receivables listed in the April 30, 2005 D03 Accounts Receivable Aging Report-General Ledger 1319. All items have been outstanding for over 1 year and some are for the same employees.
- Reconciliations between Payroll/Personnel and Accounting do not occur on a regular basis.

We recommend that the Department establish procedures to promptly clear long-outstanding payroll receivables through payroll deductions or Franchise Tax Board offset, and reconcile information between Accounting and Personnel regularly.

## **Expenditure Cycle**

The Department incurs expenditures for administrative and program operations, and local assistance.

## **Strengths**

- Purchase orders are authorized, signed by the accounting officer to verify availability of funds, and encumbered timely.
- Travel advances and salary advances are properly supported. This corrects a prior finding from our 2003 report.
- The Department properly accounts for the petty cash fund.
- Contract monitors properly maintain an expenditure ledger to track invoice payments and contract balances, to ensure that sufficient funds are available to pay for services rendered.
- Separation payments are independently reviewed prior to payment. This corrects a prior finding from our 2003 report.

## **Risk Area 3—Inadequate Controls over the Preparation and Distribution of Department Issued Checks**

Controls over the preparation and distribution of Department issued checks require improvement to reduce the risk of misappropriation of state funds. The identified risk areas are as follows:

- Check preparers do not always mark disbursement authorizations with the check number in ink to prevent their reuse, as required by SAM Section 8080. Six of twenty five payments tested were found with unmarked supporting documentation.

- Checks in excess of \$15,000 not payable to the State Treasury, to another state agency, or to a bank account for withholding taxes do not always contain two signatures as required by SAM Section 8041.
- Checks are typed using correctible ribbon. SAM Section 8041 requires that on checks prepared by typewriter, departments will only use noncorrectible ribbon. The use of noncorrectible ribbon reduces the risk that checks will be altered.
- The daily log of checks written does not follow the format prescribed by SAM Section 8081 and does not contain sufficient information. The log of checks signed is maintained by the operator of the check signing machine, who also compares this log to the meter on the check signing machine. In accordance with SAM Section 8081, the operator of the check signing machine should not perform these procedures. As noted in our prior report, the log of checks signed is also not reconciled with the daily log of checks written.

We recommend that the Department ensure that the controls over check accountability and preparation are in compliance with SAM Sections 8041, 8080, and 8081.

#### **Risk Area 4—Inadequate Purchasing/Contracting Controls**

- An updated list of employees authorized to sign contracts is maintained but not complete. Although the memorandum for delegated signature authority identifies the positions with signature authority, it does not include employee names. SAM Section 1208 requires each agency to maintain a current written record of agency employees authorized to sign contracts. A Department of General Services' legal counsel confirmed that this list should include employee names, not just position titles.
- Follow-up or review processes for outstanding purchase orders are not operational in both the Accounting and Business Services Units. Two out of five open purchase orders were older than 30 days and not followed-up. Two out of eight paid purchase orders were also not timely followed-up prior to payment. According to SAM Section 8422.20, in order to determine whether all goods and services ordered are actually received, the agency shall develop procedures to follow up on open purchase documents/contracts. This is a prior finding which remains uncorrected.

We recommend that the Department establish procedures to include the names of employees on the signature authorization list and ensure prompt follow-up on purchase orders.

#### **Risk Area 5—Inadequate Record Keeping over Personnel and Payroll**

Record keeping over personnel and payroll is not sufficient to adequately safeguard state assets. We noted the following:

- Leave balance records are three months out of date. SAM Section 8534 requires agencies to maintain sick leave and vacation records for each employee.
- Transfer-Out Clearance Checklists are not always signed-off by all required personnel, or are not completed when employees separate. This weakness also presents a security access risk. SAM Section 8580.4 states that agencies will not distribute salary payments to terminating employees until the agency is assured that all outstanding travel and

salary advances have been paid. This may be done by incorporating into a general "check-out" list the requirement that (along with other acknowledgments for state-owned items such as credit cards, keys, all state records and equipment) the revolving fund clerk's acknowledgment has been obtained prior to release of the final warrant. We noted a similar weakness in our prior report.

We recommend that the Department ensure that employee leave balance records are current, and that Transfer-Out Clearance Checklists are completed for all separating employees.

## **Budget**

Effective internal controls over budget functions are necessary to ensure the reliability and integrity of data.

### **Strengths**

- Documented procedures are available for Budget Revisions, Transfers of Budget Allotments, and Signature Authorization.
- Prior findings from 2003 have been corrected.

There were no risk areas identified during our assessment.

## **Financial Reporting**

Effective internal controls over financial reporting are necessary to ensure that all financial reports are promptly and accurately prepared and filed on a timely basis.

### **Strengths**

- The financial statements are certified and submitted to the State Controller's Office on a timely basis.
- Prior findings from 2003 have been corrected.

There were no risk areas identified during our assessment.

## **Information Security Controls**

Effective information security controls include protecting fiscal systems from unauthorized access.

### **Strengths**

- Information system policies and procedures for hardware, software, and computer use are adequately documented.

## **Risk Area 6—CALSTARS Access Control Weakness**

Forms to delete CALSTARS access are not submitted immediately after the employee leaves the Department. In addition, there is no follow up or confirmation on requests for access deletion. During our assessment of information security controls, we noted the following:



- CALSTARS access was not timely deleted for 2 out of 14 separating/transferring employees. This is a prior finding.
- The Transfer-Out Clearance Checklists do not ensure the termination of security access for student assistants, retired annuitants, and contractors. There is no department wide procedure in place to minimize this risk.

SAM Section 4840 requires that agencies ensure the integrity of computerized information resources by protecting them from unauthorized access, modification, destruction, or disclosure and to ensure the physical security of these resources. The risk exists that a former employee or an unauthorized employee can access the CALSTARS financial system through a Department terminal via the LAN without being in the Accounting Office.

We recommend that the Department establish appropriate policies and procedures for preserving the integrity and security of agency critical applications, including strict access controls.

## CONCLUSION

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We found that the Department has taken steps to reduce risks in many of its accounting and administrative controls. However, we also found several internal control weaknesses, including material weaknesses, some of which were also identified in our previous reports. We believe internal controls would be strengthened and the Department would operate more effectively if management implements our recommendations. The internal control weaknesses, if left uncorrected, increase the risk that material errors or irregularities could occur and remain undetected, and could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Fieldwork was performed between May 9, 2005 and July 18, 2005; we limited our work to those areas specified in the *Scope and Methodology* section of this report.

## DEPARTMENT'S REPOSE

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**DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS**

1700 K STREET  
SACRAMENTO, CA 95814-4037  
TDD (916) 445-1942  
(916) 445-1943



October 31, 2005

Janet I. Rosman, Assistant Chief  
Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, California 95814

Dear Ms. Rosman:

Enclosed you will find the Department of Alcohol and Drug Programs' (ADP) responses to the Draft Report-Internal Control Risk Assessment/Limited Scope Review that was performed under an interagency agreement to facilitate ADP's compliance with the Financial Integrity and State Manager's Accountability Act of 1983. Our enclosed responses to your specific findings follow the same format used in the draft report.

In addition, we have reviewed the risk areas identified in the draft report. These risks have either been corrected or will be corrected by June 30, 2006.

If you have any questions regarding ADP's responses, please contact Alan Smith, Acting Deputy Director, Division of Administration, at (916) 323-2065.

Sincerely,

Original signed by Kathryn P. Jett

KATHRYN P. JETT  
Director

Enclosure

cc: Alan Smith, Acting Deputy Director of Administration  
Alice Huffaker, Grants Manager  
Susan Lussier, Fiscal Manager  
Loretta Palaca, Human Resources Manager  
Laurel Harper, Accounting Manager



**DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS**  
**RESPONSES TO DRAFT REPORT – INTERNAL CONTROL REVIEW**  
June 6, 2005

<b>FINDING 1</b>	<b>Inadequate Separation of Duties over Cash Disbursements – Separation of duties over cash disbursements is not sufficient to safeguard state assets.</b>
<b>Recommendation:</b>	Ensure that adequate separation of duties are established and maintained over cash disbursements. Ensure that the person whose signature is used for the check signing machine controls the key.
<b>Response:</b>	ADP's Accounting Office has a small staff and ensuring adequate separation of duties for both the primary and backup staff has been a challenge. The Accounting Office is currently reviewing and updating internal procedures for the entire cycle of Cash Disbursements to identify tasks that could be reassigned. The separation of duties will be compared to the requirements in State Administrative Manual (SAM) 8080.2 to ensure appropriate safeguarding of the assets. In the event that there is insufficient staff to comply, an exception to the requirement will be requested from the appropriate authority. The written procedures and/or exception authorization will be in place by March 31, 2006.
<b>FINDING 2</b>	<b>Inadequate Safeguarding of Blank Check Stock – Blank check stock is not sufficiently safeguarded from unauthorized use.</b>
<b>Recommendation:</b>	Ensure that procedures are established and maintained to adequately control blank check stock.
<b>Response:</b>	A primary concern identified in this finding is the custody of the key to the blank check stock. Procedures are being prepared to remove that key from its current location in the safe, to being kept by the individual who maintains the blank check log. The other logs that have been identified as a concern – the checks written log and the checks signed log – are currently maintained as a single log. They are being revised and separated into two logs, to be maintained by different individuals as required by SAM 8041. The final written procedures will be in place by February 28, 2006.

**DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS**  
**RESPONSES TO DRAFT REPORT – INTERNAL CONTROL REVIEW**  
June 6, 2005

**FINDING 3**                      **Inadequate Written Procedures – Not all cash disbursement functions have written desk procedures. Specifically, there are no written procedures for verifying checks with backup documentation, for issuing refund checks from the general fund, for maintaining the petty cash fund, or handling undeliverable warrants. Before fieldwork was completed, Department staff produced written procedures for verifying checks with backup documentation and maintaining the petty cash fund, but not for issuing refund checks or handling undeliverable warrants.**

**Recommendation:**              Develop and maintain written desk procedures for all cash disbursement functions.

**Response:**                      Procedures for issuing refunds and handling undeliverable warrants will be completed by January 31, 2006.

**FINDING 4**                      **Payment of Purchase Orders without Required Documentation – Purchase orders and related invoices are paid without proper receipt documentation. Specifically, 33 out of a sample of 65 documents tested were either paid prior to the preparation of the stock receipt report, or were paid without stock received reports or other documentation evidencing receipt.**

**Recommendation:**              Establish procedures for monitoring purchase orders, invoices, and stock received reports prior to payments.

**Response:**                      The Accounting and Business Services Offices have already revised their operational procedures to correct this finding. The Business Services Office is delivering Stock Received Reports (SRR's) to the Accounting Office on a daily basis. The Senior Accounting Officer is verifying that an SRR is included with the agency copy of the claim schedule for all payments of merchandise. Written procedures to document this process will be completed by December 31, 2005.

**DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS**  
**RESPONSES TO DRAFT REPORT – INTERNAL CONTROL REVIEW**  
June 6, 2005

**FINDING 5**

**Incomplete State Property and Fixed Assets Records –**  
The Department's Property Register and the physical inventory report do not contain a complete record. These reports lack accounting for furniture purchased within the past few years. While the Department implemented new inventory procedures to record all information and to tag all new assets in March 2005, the process has not been completed.

**Recommendation:**

Ensure that property records are accurate and complete; fully implement the new procedures over fixed assets.

**Response:**

The Business Services Office currently records and tags all property in accordance with the Department's new inventory procedures. The Business Services Office is required to complete a physical inventory by 2007 in accordance to the State Administrative Manual. At the time of the physical inventory, the Business Services Office will tag all furniture that was not tagged prior to the implementation of the Department's new inventory procedures in March 2005. If additional resources can be identified to complete the physical inventory prior to 2007, the Business Services Office will ensure that all the furniture is tagged at that time.

The Business Services Office implemented the new Fixed Assets procedures in July 2005.